

NEW MARKET COMMUNITY SCHOOL DISTRICT  
NEW MARKET, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

## TABLE OF CONTENTS

	Page
OFFICIALS	3
INDEPENDENT AUDITOR’S REPORT	4-5
BASIC FINANCIAL STATEMENTS	
Exhibit	
District-Wide Financial Statements:	
A Statement of Net Assets	8-9
B Statement of Activities	10-13
Governmental Fund Financial Statements:	
C Balance Sheet	14-15
D Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	16
E Statement of Revenues, Expenditures and Changes in Fund Balances	17
F Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	18
Proprietary Fund Financial Statements:	
G Statement of Net Assets	19
H Statement of Revenues, Expenses, and Changes in Net Assets	20
I Statement of Cash Flows	21
Fiduciary Fund Financial Statements:	
J Statement of Fiduciary Net Assets	22
K Statement of Changes in Fiduciary Net Assets	23
Notes to Financial Statements	24-34
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances – Budget and Actual (Accrual Basis) – All Governmental Funds and Proprietary Fund	36
Notes to Required Supplementary Information – Budgetary Reporting	37
OTHER SUPPLEMENTARY INFORMATION:	
Schedule	
Nonmajor Governmental Funds:	
1 Combining Balance Sheet	40
2 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	41
3 Schedule of Changes in Special Revenue Fund, Student Activity Accounts	42
4 Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	43
5 Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	44
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	45-46
SCHEDULE OF FINDINGS	47-49

# NEW MARKET COMMUNITY SCHOOL DISTRICT

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2005 Election)		
Alan Brown	President	2005
Rick Cabbage	Vice President	2005
Brian Fine	Board Member	2007
Teresa Ganley	Board Member	2006
Jason Harrison	Board Member	2006
<u>Board of Education</u>		
(After September 2005 Election)		
Alan Brown	President	2008
Teresa Ganley	Vice President	2006
Kelly Parrot	Board Member	2008
Brian Fine	Board Member	2007
Jason Harrison	Board Member	2006
<u>School Officials</u>		
Russell Hilker	Superintendent	2006
Jennifer Graham	District Secretary/Treasurer	2006
Richard Wilson	Attorney – Property Issues	Indefinite
Robert Reynoldson	Attorney – Education & Policy Issues	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
New Market Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Market Community School District, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Market Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2006 on our consideration of New Market Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 36 through 37 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented Management's Discussion and Analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise New Market Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa  
August 11, 2006

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## Basic Financial Statements

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 409,180	\$ 242	\$ 409,422
Receivables:			
Property tax:			
Current year	16,175	-	16,175
Succeeding year	460,882	-	460,882
Income surtax	38,375	-	38,375
Due from other governments	79,512	-	79,512
Inventories	-	2,439	2,439
Restricted ISCAP assets (note 3):			
Investments	302,984	-	302,984
Accrued interest receivable	1,756	-	1,756
Capital assets, net of accumulated depreciation (note 4)	169,111	1,589	170,700
<b>Total assets</b>	<b>1,477,975</b>	<b>4,270</b>	<b>1,482,245</b>
<b>Liabilities</b>			
Accounts payable	136,664	-	136,664
Salaries and benefits payable	79,806	-	79,806
ISCAP warrants payable (note 3)	303,000	-	303,000
ISCAP accrued interest payable (note 3)	1,640	-	1,640
ISCAP unamortized premium (note 3)	2,193	-	2,193
Deferred revenue:			
Succeeding year property tax	460,882	-	460,882
Other	6,948	-	6,948
<b>Total liabilities</b>	<b>991,133</b>	<b>-</b>	<b>991,133</b>



NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets	\$ 169,111	\$ 1,589	\$ 170,700
Restricted for:			
Management levy	136,574	-	136,574
Physical plant and equipment levy	33,780	-	33,780
Other special revenue purposes	706	-	706
Capital projects	102,513	-	102,513
State grants	10,191	-	10,191
Unrestricted	33,967	2,681	36,648
Total net assets	\$ <u>486,842</u>	\$ <u>4,270</u>	\$ <u>491,112</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 767,306	\$ 13,008	\$ 141,980	\$ -
Special instruction	271,470	47,079	39,457	-
Other instruction	66,517	5,136	-	-
	<u>1,105,293</u>	<u>65,223</u>	<u>181,437</u>	<u>-</u>
Support services:				
Student services	197	1,300	-	-
Instructional staff services	41,939	-	-	-
Administration services	176,550	-	-	-
Operation and maintenance of plant services	122,904	-	-	-
Transportation services	90,843	-	5,658	-
	<u>432,433</u>	<u>1,300</u>	<u>5,658</u>	<u>-</u>
Non-instructional programs	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	71,696	692	-	-
AEA flowthrough	53,881	-	53,881	-
Depreciation (unallocated) *	10,175	-	-	-
	<u>135,752</u>	<u>692</u>	<u>53,881</u>	<u>-</u>
Total governmental activities	1,677,978	67,215	240,976	-
Business-Type Activities:				
Non-instructional programs:				
Food service operations	<u>43,081</u>	<u>15,894</u>	<u>26,490</u>	<u>500</u>
Total	\$ 1,721,059	\$ 83,109	\$ 267,466	\$ 500

Net (Expense) Revenue and Changes in Net Assets			
<hr/>			
	Governmental Activities	Business-Type Activities	Total
	<hr/>	<hr/>	<hr/>
\$	(612,318)	\$ -	\$ (612,318)
	(184,934)	-	(184,934)
	(61,381)	-	(61,381)
	<hr/> (858,633)	<hr/> -	<hr/> (858,633)
	1,103	-	1,103
	(41,939)	-	(41,939)
	(176,550)	-	(176,550)
	(122,904)	-	(122,904)
	(85,185)	-	(85,185)
	<hr/> (425,475)	<hr/> -	<hr/> (425,475)
	(4,500)	-	(4,500)
	<hr/> (71,004)	<hr/> -	<hr/> (71,004)
	-	-	-
	(10,175)	-	(10,175)
	<hr/> (81,179)	<hr/> -	<hr/> (81,179)
	(1,369,787)	-	(1,369,787)
	<hr/> -	<hr/> (197)	<hr/> (197)
	(1,369,787)	(197)	(1,369,984)
	<hr/> (1,369,787)	<hr/> (197)	<hr/> (1,369,984)

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

\* = This amount excludes the depreciation that is included  
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ 541,870	\$ -	\$ 541,870
11,431	-	11,431
41,183	-	41,183
82,907	-	82,907
704,839	-	704,839
19,341	6	19,347
5,652	-	5,652
1,407,223	6	1,407,229
37,436	(191)	37,245
449,406	4,461	453,867
\$ <u>486,842</u>	\$ <u>4,270</u>	\$ <u>491,112</u>

NEW MARKET COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Special Revenue Management Levy	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 142,508	\$ 137,093	\$ 90,539	\$ 39,040	\$ 409,180
Receivables:					
Property tax:					
Current year	14,964	877	-	334	16,175
Succeeding year	424,279	25,914	-	10,689	460,882
Income surtax	38,375	-	-	-	38,375
Due from other governments	36,710	-	42,802	-	79,512
Restricted ISCAP assets (note 3):					
Investments	302,984	-	-	-	302,984
Accrued interest receivable	1,756	-	-	-	1,756
Total assets	<u>\$ 961,576</u>	<u>\$ 163,884</u>	<u>\$ 133,341</u>	<u>\$ 50,063</u>	<u>\$ 1,308,864</u>

NEW MARKET COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Special Revenue Management Levy	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 99,552	\$ 1,396	\$ 30,828	\$ 4,888	\$ 136,664
Salaries and benefits payable	79,806	-	-	-	79,806
ISCAP warrants payable (note 3)	303,000	-	-	-	303,000
ISCAP accrued interest payable (note 3)	1,640	-	-	-	1,640
ISCAP unamortized premium	2,193	-	-	-	2,193
Deferred revenue:					
Succeeding year property tax	424,279	25,914	-	10,689	460,882
Other	45,323	-	-	-	45,323
Total liabilities	<u>955,793</u>	<u>27,310</u>	<u>30,828</u>	<u>15,577</u>	<u>1,029,508</u>
Fund balance:					
Reserved for:					
State grants	10,191	-	-	-	10,191
Unreserved:					
Reported in nonmajor Special Revenue Funds	-	-	-	34,486	34,486
Undesignated	(4,408)	136,574	102,513	-	234,679
Total fund balances	<u>5,783</u>	<u>136,574</u>	<u>102,513</u>	<u>34,486</u>	<u>279,356</u>
Total liabilities and fund balances	<u>\$ 961,576</u>	<u>\$ 163,884</u>	<u>\$ 133,341</u>	<u>\$ 50,063</u>	<u>\$ 1,308,864</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2006

Total fund balances of governmental funds	\$ 279,356
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	169,111
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	<u>38,375</u>
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Net assets of governmental activities	<u><u>\$ 486,842</u></u>
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See notes to financial statements.



## NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2006

	General	Special Revenue Management Levy	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 549,862	\$ 29,962	\$ 82,907	\$ 11,419	\$ 674,150
Tuition	58,826	-	-	-	58,826
Other	16,397	7,133	3,418	6,433	33,381
State sources	841,610	31	-	12	841,653
Federal sources	104,735	-	-	-	104,735
Total revenues	1,571,430	37,126	86,325	17,864	1,712,745
Expenditures:					
Current:					
Instruction:					
Regular instruction	763,734	2,019	-	-	765,753
Special instruction	271,470	-	-	-	271,470
Other instruction	58,442	-	-	6,134	64,576
	1,093,646	2,019	-	6,134	1,101,799
Support services:					
Student services	197	-	-	-	197
Instructional staff services	41,500	-	-	5,166	46,666
Administration services	167,125	9,425	-	-	176,550
Operation and maintenance of plant services	102,679	12,956	-	7,269	122,904
Transportation services	99,739	5,932	-	-	105,671
	411,240	28,313	-	12,435	451,988
Non-instructional programs	4,500	-	-	-	4,500
Other expenditures:					
Facilities acquisition	-	-	86,827	1,954	88,781
AEA flowthrough	53,881	-	-	-	53,881
	53,881	-	86,827	1,954	142,662
Total expenditures	1,563,267	30,332	86,827	20,523	1,700,949
Excess (deficiency) of revenues over (under) expenditures	8,163	6,794	(502)	(2,659)	11,796
Fund balances beginning of year	(2,380)	129,780	103,015	37,145	267,560
Fund balances end of year	\$ 5,783	\$ 136,574	\$ 102,513	\$ 34,486	\$ 279,356

See notes to financial statements.

## NEW MARKET COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 11,796

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 43,142	
Depreciation expense	<u>(20,171)</u>	22,971

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities.

2,669

Change in net assets of governmental activities \$ 37,436

See notes to financial statements.

## NEW MARKET COMMUNITY SCHOOL DISTRICT

## STATEMENT OF NET ASSETS

## PROPRIETARY FUND

June 30, 2006

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 242
Inventories	2,439
Capital assets, net of accumulated depreciation	<u>1,589</u>
Total assets	<u>4,270</u>
Liabilities	
None	<u>-</u>
Net Assets	
Invested in capital assets	1,589
Unrestricted	<u>2,681</u>
Total net assets	<u>\$ 4,270</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>15,894</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	22,009
Benefits	2,907
Supplies	17,723
Depreciation	442
	<u>43,081</u>
Operating loss	<u>(27,187)</u>
Non-operating revenues:	
Interest on investments	6
Contributions	5,000
State sources	492
Federal sources	21,498
Total non-operating revenues	<u>26,996</u>
Change in net assets	(191)
Net assets beginning of year	<u>4,461</u>
Net assets end of year	\$ <u><u>4,270</u></u>

See notes to financial statements.

## NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 13,625
Cash received from miscellaneous operating activities	2,269
Cash payments to employees for services	(24,916)
Cash payments to suppliers for goods or services	<u>(14,141)</u>
Net cash used by operating activities	<u>(23,163)</u>
Cash flows from non-capital financing activities:	
State grants received	492
Federal grants received	18,064
Contributions received	4,500
Temporary loans received	2,500
Temporary loans repaid	<u>(2,500)</u>
Net cash provided by non-capital financing activities	<u>23,056</u>
Cash flows from investing activities:	
Interest on investments	<u>6</u>
Net decrease in cash and cash equivalents	(101)
Cash and cash equivalents beginning of year	<u>343</u>
Cash and cash equivalents end of year	\$ <u><u>242</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (27,187)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	442
Commodities used	3,434
Decrease in inventories	<u>148</u>
Net cash used by operating activities	\$ <u><u>(23,163)</u></u>
Non-cash investing, capital and financing activities:	
During the year ended June 30, 2006, the District received \$3,434 of federal commodities and \$500 of capital contributions.	

See notes to financial statements.

## NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 June 30, 2006

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Cash and pooled investments	\$ <u>3,010</u>	\$ <u>671</u>
Liabilities:		
Other payables	<u>-</u>	<u>671</u>
Net assets:		
Reserved for scholarships	\$ <u><u>3,010</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
Year Ended June 30, 2006

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>79</u>
Deductions:	
Support services:	
Scholarships awarded	<u>100</u>
Change in net assets	(21)
Net assets beginning of year	<u>3,031</u>
Net assets end of year	\$ <u><u>3,010</u></u>

See notes to financial statements.

## NEW MARKET COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### Note 1. Summary of Significant Accounting Policies

New Market Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through eight. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of New Market, Iowa, and the agricultural territory in Taylor and Page Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

##### A. Reporting Entity

For financial reporting purposes, New Market Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. New Market Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Taylor and Page County Assessor's Conference Boards.

##### B. Basis of Presentation

District-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.



NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue, Management Levy Fund is used to account for the payments of casualty and workers' compensation insurance and certain other employee related liabilities, including unemployment benefits.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2006 will not be received by the District until several months after year end. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	7-15 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse employees for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2006.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted and expenditures exceeded the District's spending authority in the General Fund.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 2. Cash and Pooled Investments (continued)

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ <u>361,172</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk – The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable	Unamortized Premium
2005-06B	1/26/2006	1/26/2007	\$ 83,290	\$ 1,688	\$ 83,000	\$ 1,586	\$ 519
2006-07A	6/28/2006	6/28/2007	219,694	68	220,000	54	1,674
Total			<u>\$ 302,984</u>	<u>\$ 1,756</u>	<u>\$ 303,000</u>	<u>\$ 1,640</u>	<u>\$ 2,193</u>

# NEW MARKET COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2005-06A	\$ <u>          -          </u>	\$ <u>      105,000      </u>	\$ <u>      105,000      </u>	\$ <u>                  -</u>

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,250	\$ -	\$ -	\$ 3,250
Capital assets being depreciated:				
Buildings	404,220	17,085	-	421,305
Improvements other than buildings	28,170	-	-	28,170
Furniture and equipment	174,477	26,057	-	200,534
Total capital assets being depreciated	606,867	43,142	-	650,009
Less accumulated depreciation for:				
Buildings	322,422	8,766	-	331,188
Improvements other than buildings	19,726	1,409	-	21,135
Furniture and equipment	121,829	9,996	-	131,825
Total accumulated depreciation	463,977	20,171	-	484,148
Total capital assets being depreciated, net	142,890	22,971	-	165,861
Governmental activities capital assets, net	\$ 146,140	\$ 22,971	\$ -	\$ 169,111



NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 8,187	\$ 500	\$ -	\$ 8,687
Less accumulated depreciation	<u>6,656</u>	<u>442</u>	<u>-</u>	<u>7,098</u>
Business-type activities capital assets, net	<u>\$ 1,531</u>	<u>\$ 58</u>	<u>\$ -</u>	<u>\$ 1,589</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular

\$ 1,553

Other

1,941

Support services:

Transportation

6,502

9,996

Unallocated depreciation

10,175

Total governmental activities depreciation expense

\$ 20,171

Business-type activities:

Food service operations

\$ 442

Note 5. Operating Lease

The District is obligated under an equipment lease for two copiers accounted for an operating lease.

Operating leases do not give rise to property rights or lease obligations and therefore are not included as capital assets or long-term liabilities in the District-wide financial statements. The agreement provides for monthly lease payments of \$512, which includes a maintenance agreement during the term of the lease.

# NEW MARKET COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### Note 5. Operating Lease (continued)

The total annual lease payments under the lease agreement are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 5,987
2008	6,144
2009	6,144
2010	6,144
2011	6,144
	<u>\$ 30,563</u>

The total payments under the agreement for the year ended June 30, 2006 were \$6,719.

### Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$36,704, \$36,645, and \$35,131 respectively, equal to the required contributions for each year.

### Note 7. Risk Management

New Market Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$53,881 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## Required Supplementary Information

# NEW MARKET COMMUNITY SCHOOL DISTRICT

## Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances – Budget and Actual (Accrual Basis) – All Governmental Funds and Proprietary Fund Required Supplementary Information Year Ended June 30, 2006

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	\$ 766,357	\$ 20,900	\$ 787,257	\$ 715,379	\$ 715,379	\$ 71,878
Intermediate sources	-	-	-	500	500	(500)
State sources	841,653	492	842,145	905,023	905,023	(62,878)
Federal sources	104,735	21,498	126,233	178,500	178,500	(52,267)
Total revenues	1,712,745	42,890	1,755,635	1,799,402	1,799,402	(43,767)
EXPENDITURES:						
Instruction	1,101,799	-	1,101,799	1,048,260	1,165,965	64,166
Support services	451,988	-	451,988	441,300	479,100	27,112
Non-instructional programs	4,500	43,081	47,581	47,500	47,500	(81)
Other expenditures	142,662	-	142,662	73,347	108,881	(33,781)
Total expenditures	1,700,949	43,081	1,744,030	1,610,407	1,801,446	57,416
Excess (deficiency) of revenues over (under) expenditures	11,796	(191)	11,605	188,995	(2,044)	13,649
Other financing sources, net	-	-	-	1,000	1,000	(1,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	11,796	(191)	11,605	189,995	(1,044)	12,649
Balance beginning of year	267,560	4,461	272,021	360,328	360,328	(88,307)
Balance end of year	\$ 279,356	\$ 4,270	\$ 283,626	\$ 550,323	\$ 359,284	\$ (75,658)

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. Encumbrances are not recognized and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$191,039.

During the year ended June 30, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted and expenditures exceeded the District's spending authority in the General Fund.

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## Other Supplementary Information

## NEW MARKET COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2006

	Special Revenue		
	Student	Physical	
	Activity	Plant and	
		Equipment	
		Levy	Total
Assets			
Cash and pooled investments	\$ 714	\$ 38,326	\$ 39,040
Receivables:			
Property tax:			
Current year	-	334	334
Succeeding year	-	10,689	10,689
Total assets	\$ 714	\$ 49,349	\$ 50,063
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 8	\$ 4,880	\$ 4,888
Deferred revenue:			
Succeeding year property tax	-	10,689	10,689
Total liabilities	8	15,569	15,577
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	706	33,780	34,486
Total liabilities and fund equity	\$ 714	\$ 49,349	\$ 50,063

See accompanying independent auditor's report.



NEW MARKET COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2006

	Special Revenue		
	Student	Physical	
	Activity	Plant and	
		Equipment	
		Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	\$ 11,419	\$ 11,419
Other	5,143	1,290	6,433
State sources	-	12	12
Total revenues	<u>5,143</u>	<u>12,721</u>	<u>17,864</u>
Expenditures:			
Current:			
Instruction:			
Other instruction	6,134	-	6,134
Support services:			
Instructional staff services	-	5,166	5,166
Operation and maintenance of plant services	-	7,269	7,269
Other expenditures:			
Facilities acquisition	-	1,954	1,954
Total expenditures	<u>6,134</u>	<u>14,389</u>	<u>20,523</u>
Deficiency of revenues under expenditures	(991)	(1,668)	(2,659)
Fund balances beginning of year	<u>1,697</u>	<u>35,448</u>	<u>37,145</u>
Fund balances end of year	<u>\$ 706</u>	<u>\$ 33,780</u>	<u>\$ 34,486</u>

See accompanying independent auditor's report.

## NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Junior High - 7th & 8th	\$ (188)	\$ 733	\$ 539	\$ 6
Library Club	528	1,272	1,272	528
Shows (Assemblies)	718	8	600	126
Instrumental Music (Band)	498	1,935	2,440	(7)
Athletics	141	662	750	53
Intrafund Transfers	-	533	533	-
Total	\$ 1,697	\$ 5,143	\$ 6,134	\$ 706

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 Year Ended June 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 599	\$ 1,186	\$ 1,114	\$ 671
Liabilities				
Other payables	\$ 599	\$ 1,186	\$ 1,114	\$ 671

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 674,150	\$ 672,955	\$ 593,160	\$ 610,666
Tuition	58,826	31,578	34,015	17,346
Other	33,381	25,324	22,335	19,235
State sources	841,653	790,431	764,402	759,070
Federal sources	104,735	128,914	126,196	46,221
Total revenues	<u>\$ 1,712,745</u>	<u>\$ 1,649,202</u>	<u>\$ 1,540,108</u>	<u>\$ 1,452,538</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 765,753	\$ 751,466	\$ 731,033	\$ 672,747
Special instruction	271,470	294,472	277,280	267,402
Other instruction	64,576	69,165	22,363	19,918
Support services:				
Student services	197	59	89	80
Instructional staff services	46,666	34,183	21,521	29,672
Administration services	176,550	169,412	166,595	173,550
Operation and maintenance of plant services	122,904	137,157	131,150	116,305
Transportation services	105,671	77,906	96,091	65,213
Non-instructional programs	4,500	650	5,087	577
Other expenditures:				
Facilities acquisition	88,781	13,712	32,817	9,893
AEA flowthrough	53,881	52,561	52,628	56,126
Total expenditures	<u>\$ 1,700,949</u>	<u>\$ 1,600,743</u>	<u>\$ 1,536,654</u>	<u>\$ 1,411,483</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Education of  
New Market Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of New Market Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Market Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Market Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about New Market Community School District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of New Market Community School District and other parties to whom New Market Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of New Market Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa  
August 11, 2006

NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that all cash receipts and cash disbursements were all done by the same person. However, the principal reviews all bank reconciliations and invoices.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to investigate alternatives and implement wherever possible.

Conclusion – Response accepted.

# NEW MARKET COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF FINDINGS

Year Ended June 30, 2006

### Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget – Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the non-instructional programs and other expenditures functions. In addition, expenditures exceeded the District's spending authority by approximately \$122,000.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget. The District should contact the Department of Management to resolve the matter of exceeding the spending authority.

Response – We will amend our budget before expenditures exceed the budget and contact the Department of Management about the spending authority.

Conclusion – Response accepted.

- II-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brian Fine, Board Member Owner of Fine Service	Pest control	\$ 828
Jill Harrison, Spouse of Board Member	Food supplies	6

In accordance with Chapter 279.7A of the Code of Iowa, the transactions do not appear to represent conflicts of interest.

- II-E-06 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

- II-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.



NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting (continued):

- II-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-06 Financial Condition – The General Fund has a negative unreserved, undesignated fund balance of \$4,408.
- Recommendation – The District needs to explore alternatives to restore the General Fund to a sound financial condition.
- Response – The Board is aware of the condition and will work on restoring the District to a sound financial condition. The Board is also seriously looking at the future of the District including the possibility of dissolving or reorganizing with another school district.
- Conclusion – Response accepted.

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